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SUBJECT: BUSINESS UNCERTAIN ABOUT IMPACT OF ZUMA PRESIDENCY

Classified By: Economic Counselor Perry Ball, reason 1.4 (b) and (d)

1 (C) Summary: South Africa's main business group engages with the ANC on a regular basis and is confident that Jacob Zuma and his economic team understand the need for centrist economic policies. However, business is concerned about the possible influence of unions and communists on the ANC, and is troubled by the lack of certainty about who will sit in Zuma's cabinet. While radical changes are unlikely, larger deficits and unwise micro-policies might inhibit growth. End Summary

The ANC Is OK, But Not Its Friends

12. (C) On the eve of national elections, South African business is uncertain about the direction South Africa will take under Jacob Zuma, according to Raymond Parsons, the Deputy CEO of Business Unity South Africa (BUSA), the country's premiere big business organization. He met with Deputy Economic Counselor and Economic Specialist on April 14.

13. (C) According to Parsons, business is comfortable with the ANC leadership. BUSA engages with the ANC on a regular basis, having last met with Zuma and his economic team only a few weeks earlier. Parsons was confident that the ANC "gets it" on economics and understands the need for "centrist" economic policies, especially in this time of global turmoil. As he put it, "The ANC knows that big deficits will lower our credit ratings and raise the cost of capital, and the ANC knows that radical moves will scare investors." The big question mark for BUSA is the role that COSATU and the South African Communist Party (SACP) will play in a Zuma government alongside the ANC. That is still unclear, he said.

Who Will Sit in Cabinet?

14. (C) Parsons was particularly troubled by the lack of clarity about who will hold the key economic portfolios in Zuma's cabinet. He speculated that Trevor Manuel would stay on as Finance Minister only if he had the full backing of Zuma, which might not be forthcoming since COSATU and the SACP "hate" Manuel's market-friendly policies. Parsons claimed that recent proposals to set up a national planning commission or a "super-cabinet" of economic departments are subterfuges to curb National Treasury's influence. Parsons also noted that Reserve Bank Governor Tito Mboweni's term expires later this year, with no clear successor in sight. Parsons thought that few sitting ministers would be carried over to the Zuma cabinet. "There are still many unknowns," he said. (Note: Many observers think Manuel will remain at National Treasury as a confidence-bestowing transitional figure through the next national budget in February 2010. As Parsons noted, Manuel is "a loyal ANC man" who will stay on if asked to -- at least for a while. South African Revenue Service Commissioner Pravin Gordhan is often cited as a candidate to replace Manuel. End Note.)

Scenarios

15. (C) Parsons stressed that the "worst-case Zuma scenario" is not/not nationalization or other radical reforms. "There is no Hugo Chavez in this country," he said (twice). Instead, Parsons' biggest concern was the threat of creeping populism and its long-term effect on development. Zuma, he warned, might lose control of the deficit or adopt many "small, dumb" policies that added up to a real constraint on growth. "The government might tighten labor laws," he said, "or it might raise taxes stupidly. Or it might do a bunch of Q"or it might raise taxes stupidly. Or it might do a bunch of little things without thinking. This is the real danger." Parsons lamented the fact that Zuma has no strong views on economics and will not provide strong policy leadership. "Every decision could be up for grabs, with COSATU and the SACP fighting the ANC. We'll never get to six percent growth that way," he said.

Comment

16. (C) Parsons is right about two things: the composition of Zuma's cabinet will be all-important, and Zuma is not talking about the people he intends to tap. That said, three things seem fairly certain. First, the ANC will probably retain the upper hand in its relationship with COSATU and the SACP. Second, the SAG's freedom to dabble with populist policies will be constrained by the current economic downturn. And third, blandishments and persuasion will inevitably play a role in bringing populists into line. As ANC Treasurer-General Mathews Phosa recently told an audience of well-heeled investors who asked about the implications of SACP support for Zuma, "We'll co-opt the communists, like always."

LA LIME